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FEDERAL COMMUNICATIONS COMMISSION
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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)
) IB Docket No. 96-261
International Settlement Rates)

CSI'S COMMENTS

Pursuant to the Commission's Notice of Proposed Rulemaking ("NPRM") in this proceeding, the Coalition of Services Industries ("CSI") submits these comments.¹

CSI was established in 1982 to represent the interests of the largest segment of the economy, the service sector. Since its founding, CSI has directed its efforts toward increasing public awareness of the major role services play in our national economy, and to shaping domestic and foreign policies that affect the interests of that sector. The broad range and diversity of the service sector is reflected in CSI's membership, which includes major international companies from the banking, insurance, telecommunications, computer and information services, maritime transport, travel and tourism, accountancy, transportation and logistics, and diversified management services industries. CSI's member companies conduct business in all fifty states and in over 150 countries.

¹ In the Matter of International Settlement Rates, Notice of Proposed Rulemaking, IB Docket No. 96-261, FCC 96-484, released December 19, 1996, ("Benchmark NPRM").

In early 1996, CSI formed the Telecommunications Services Working Group, to ensure that business users' interests are represented in applicable public policy discussions. The Working Group represents the interests of service industry companies that use telecommunications services to conduct business in the United States and around the world. Business users believe that robust competition represents the best way to achieve innovative, reliable, cost-effective and responsive telecommunications services. The Commission's policies and practices have certainly contributed to a rapidly-evolving competitive marketplace in the United States. However, competition has not evolved as rapidly in other countries and has resulted in a few countries with competitive markets but most with monopolies, and competitive-based pricing is the exception, not the rule. Business users, therefore, face widely disparate pricing schedules on a country-to-country basis for International Message Telecommunications Service ("IMTS"). Global telecommunication services competition is an essential ingredient in the business user's recipe for global success.²

Two efforts are currently underway to hasten the introduction of full and fair competition in foreign markets. The first is the Commission action proposed in the NPRM, and the second is the negotiations to include basic telecommunications services in the General Agreement on Trade in Services ("GATS"), being conducted by the Group on Basic Telecommunications ("GBT") of the World Trade Organization ("WTO"). These

² The Commission has taken a positive step in its recent decision in Regulation of International Accounting Rates, Fourth Report and Order, CC Docket No. 90-337, Phase II, FCC 98-459 (Dec. 3, 1996). By recognizing that, where competitive conditions exist, flexible alternatives to the traditional method of bilateral accounting rates should be permitted, and additional competitive pressures can be brought to bear that can promote reductions in collection rates. Flexibility in approaching a benchmark system for settlement rates should also have as its focus the impact on the competitive choices available to users and the rates charged for these services.

negotiations are scheduled to conclude on February 15, 1997. CSI believes that achieving a good agreement is essential to the establishment of an open and competitive international telecommunications regime. The possibility of success in the GBT negotiations and others that may follow can be significantly improved through decisive Commission action.

Reducing accounting rates will lower the cost of providing IMTS. The introduction of competition in global markets for basic telecommunications services and lower settlement costs should lower prices to business users. If the Commission can achieve a cost-based international settlement regime, and the WTO is able to reach an agreement on basic telecommunications services competition, this will stimulate the entry of new competitors who can offer innovative and less expensive services.³ CSI member companies will benefit from the increased innovation and competition-based prices that will result. Introducing competition in international telecommunications markets will require a unified commitment from all branches of the US government to facilitate the transition from the monopoly-controlled markets that exist in most other countries today.

In the NPRM, the Commission requests comment on four issues (NPRM, para. 4): (i) how should benchmark settlement rates be calculated; (ii) how long should the transition to benchmark rates last; (iii) what enforcement mechanisms are necessary to ensure that carriers make progress in negotiating settlement rates within the benchmarks; and (iv) can the benchmark rates be used to address potential competitive problems in the United States market for international services.

³ The Commission requests comment (NPRM, para. 91) on how best to encourage US carriers to reflect reduced settlement rates in the prices they charge consumers. We wholeheartedly support this goal, but our experience here in the United States teaches that the greatest and best incentive for a provider to lower its price is the competitive market place. When alternative suppliers are available, the demands of customers for reasonable prices simply cannot be ignored.

CSI members operate in highly competitive markets where cost is a critical component in determining competitiveness. For a provider of international telecommunications services, the settlement rates it must pay constitute a significant component of its costs. The above-cost settlement rates that exist today create a disincentive for competition-based pricing and a windfall for foreign carriers at the expense of US business users. This situation is not sustainable; settlement rates must be based on incremental cost. The Commission reiterates that it is "committed to achieving settlement rates that are based on carriers' long run incremental cost of terminating international traffic."⁴ This should be accomplished as quickly as possible.

In the absence of foreign carrier cost data, the Commission proposes (NPRM, para. 39) the use of the average of tariffed component prices in each of three economic development categories to calculate the upper range of the benchmark for settlement rates. The lower end of the range would be established based on an estimate of the incremental cost for terminating IMTS traffic. Alternatively, the Commission suggests setting country specific benchmark rates. This approach, could, in some cases, result in a rate below the average of the tariffed component prices, resulting in settlement rates closer to cost. In these cases, users would benefit from this approach. Otherwise, the Commission is correct in stating that averages would: one, avoid the possibility that a foreign carrier could change its tariff rates to affect the benchmark; and two, remove rewards for inefficient pricing structures. The Commission's proposed use of average ranges in the three economic development categories can be used as a transitional approach until more carrier-specific cost

⁴ NPRM, para. 41.

information is provided.⁵ The Commission should also establish a date certain for implementation of cost-based settlement rates for each of the three economic development categories.

Regarding a transition plan to achieve benchmark settlement rates (NPRM, para. 58 - 68), business users want competition-based pricing implemented as soon as possible. Nonetheless, we are mindful of possible concerns of less-developed countries; therefore we would support a transition plan for the three economic development categories as the Commission has proposed. However, in developing these transition plans, the Commission should consider accomplishing them in the shortest possible period of time.

To provide the administrative certainty necessary for effective business planning, the Commission should adopt a clear and firm enforcement mechanism for these settlement rate targets.⁶ However, US business users urge the Commission to consider carefully the possible negative impact on business users of suspending or eliminating international business services as part of an enforcement action. The Commission should not initiate enforcement actions that would impair US business users' access to international telecommunications services, and raise the prices of those services. (NPRM, para. 82).

Finally, the Commission discusses the use of settlement rate action to address anti-competitive behavior in the U.S. market (NPRM, paras. 75-86). The Commission

⁵ Foreign carriers are the best source for this information and they should respond favorably to the Commission's request (NPRM, para. 50) that they provide cost data.

⁶ This is a particular concern here, where critical regulations that will have a significant impact on how any GATS agreement that may ultimately be signed will function. The Commission and the entire Administration must do all that it can to ensure that users and providers understand what the Commission is likely to do and how the Commission's actions will be supported by the United States government.

accurately recognizes how above-cost rates can serve as an incentive, and provide carriers with the ability, to distort prices and abuse their market power. The Commission must maintain regulatory tools sufficient to ensure its ability to prevent a distortion of competition. However, the Commission should strive for foreign carriers market access based on certification of cost-based accounting rates.

For the reasons stated above, the Commission should continue its efforts to encourage the development of competition in all telecommunications markets. Only then will business users realize the full benefits of competition. Moving international settlement rates to cost as soon as possible will ensure these benefits are brought to US business users quickly. We urge the Commission to act expeditiously in a manner consistent with these comments.

Respectfully submitted,
Coalition of Services Industries

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